

NOTE

## Targeting Dalits?

**Bharat Jhunjunwala writes :**

The government is considering various alternatives to reservations for Dalits in the private sector. These include providing income tax and excise duty concessions; enhanced deduction in income tax for wages paid, and making available land at concessional terms to industries set up in Dalit-majority areas. The thinking of the government is in the right direction but some modifications are required for the benefits to actually reach the Dalits.

The main problem in current thinking is that of incentives to establish industries in Dalit-majority areas. These areas typically do not have adequate infrastructure of electricity, roads, railways and education. This leads to higher cost of production. For example, engineer has to be called from Ranchi if a diesel generator located in Palamu needs repairs. The factory may lie closed for two days. The government can compensate for these costs by providing tax concessions. But it is not wise to produce a wrist watch in Palamu for Rs 400 when the same can be produced in Ranchi for Rs 300.

The basic objective is to provide jobs to the Dalits. It is not necessary to provide them jobs in the backward areas. Migration is a natural process that must be accepted without discomfort. The Siberian Crane migrates from Siberia to Bharatpur to lay eggs. Nature does not provide it with housing 'subsidy' so that it may lay eggs in Siberia. Most people in South Asia lived in the Indus Valley at one time. Technological change made it easier to live in the Ganges Basin. The people moved from one location to another. Similarly one must accept the migration of Dalits from backward areas to cities where production can be carried out more efficiently. The money given away as tax concession does not actually reach the targeted Dalit. For example, the subsidy provided to a wrist watch factory in Palamu is used to pay taxi fare for the engineer coming from Ranchi. The Dalit of Palamu would be happy to work in Ranchi rather than his home village.

Similar programs to encourage the establishment of industries in backward areas such as the capital subsidy scheme of the seventies and eighties have been abandoned. Further, it is not necessary that Dalits will be benefited from the establishment of factories. Often factories are capital-intensive. For example an oil refinery has been established in Jagdishpur in UP. Oil is brought through a pipeline, processed and sent out by tankers. There is little linkage of the refinery with the local economy. A sugar mill would enable local people to sell their sugarcane. The refinery provides no such benefits. The few jobs created may go to outsiders. Some demand for shops and taxis may be generated but this may benefit the local bania more than Dalits.

There is, therefore, a case to reconsider providing concessions to industries in Dalit-majority areas. The proposal to provide enhanced concession for wages paid by industries in these areas is better. It will provide encouragement to the industries to employ larger numbers. But this will have limited impact because many small

industries, which create most of the employment in the country, do not pay much income tax anyway. Moreover, the impact of income tax is felt after two years at the time of assessment. It is better to provide this incentive in excise duty and sales tax. This will provide an immediate incentive to small scale industries to employ more persons. It can be arranged that industries having a larger share of wages in the value added will pay excise duty and sales tax at low rates. Say, on average the share of wages in value-added is 20 percent. It can be provided that industries paying more than 40 percent wages in value-added by them will be subject to lower rates of tax. The government may increase the normal rate of tax to make up the loss of revenue. This will lead to higher taxes being paid by capital-intensive industries and lower taxes by labour-intensive industries. Just as the government collects higher tax from a person consuming Rs 100 worth of cigarettes and lower tax from one who consumes books of the same value, similarly the government can collect higher tax from capital-intensive industries. ❄❄❄❄